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FISCAL IMPACT STATEMENT

LS 6735

BILL NUMBER: SB 224

NOTE PREPARED: Jan 29, 2008

BILL AMENDED: Jan 28, 2008

SUBJECT: Various Utility Matters.

FIRST AUTHOR: Sen. Hershman

FIRST SPONSOR: Rep. Battles

BILL STATUS: As Passed Senate

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill amends the definition of "clean coal technology" in various statutes. The bill defines the term as a technology used at an electric or steam generating facility to reduce or avoid specified airborne emissions that are regulated, or found by the Utility Regulatory Commission (IURC) to be reasonably certain to be regulated, by the federal government, the state, or a political subdivision of the state. The bill allows an existing electric generating facility to petition the IURC for approval of an airborne emissions project. The bill also requires the IURC to: (1) approve the project if the IURC finds, after notice and hearing, the project to be reasonable and necessary; and (2) provide certain financial incentives for the project. This bill requires the IURC to provide certain financial incentives to electricity suppliers for implementing electric line facilities projects. The bill also requires certain electricity suppliers to supply specified percentages of their total electricity supply from advanced energy resources or renewable energy resources by specified dates. The bill establishes the Advanced and Renewable Energy Resources Fund. The bill requires an electricity supplier that fails to supply electricity from advanced or renewable energy resources to pay a penalty. The bill provides that the penalties are deposited in the Fund.

Effective Date: Upon passage; July 1, 2008.

Explanation of State Expenditures: *IURC:* This bill will cause an increase in administrative costs for the Indiana Utility Regulator Commission. The IURC will have to amend all rules and guidelines associated with certificates, incentives, and rate adjustment hearings for clean coal technology and airborne emissions projects. The bill amends the definition of "clean coal technology" in various statutes relating to cost recovery, depreciation, and rate adjustments by utilities that implement that technology. The bill also allows certain entities to petition the IURC for approval of airborne emissions projects. The bill provides for financial incentives if these projects are approved.

State and Local Government Utility Rates: This bill could also increase expenditures by state and local governments for utilities. It is estimated that the amendment to the definition of clean coal technology could increase utility rates. The overall impact on utility rates is indeterminable. It is estimated that the amendment to the definition of clean coal technology will increase the number of utilities that are eligible for the incentives provided for implementing that type of technology, and therefore allow more utilities to adjust rates and recover costs for such technology. It is also estimated that allowing financial incentives for airborne emissions projects could cause an increase in utility rates.

Renewable Energy Development: The IURC will also have an increase in expenditures from being required to implement the advanced and renewable energy resource requirements in this bill. The increase in IURC expenditures will predominantly be due to the public hearings required for the IURC to make a determination that electricity supplier is exempt from fulfilling the supplier's advanced or renewable energy resource requirements. An electricity supplier may be exempted from the requirements by proving the energy resources required were not available or that the use of these resources would cause an unreasonable rate increase to the retail customers of the electricity supplier.

The bill provides that if there is sufficient money in the Advanced and Renewable Energy Resources Fund (ARERF) the IEDC shall, in consultation with the IURC, develop a strategy to attract renewable energy manufacturing facilities, including wind turbine component manufacturers, to Indiana. The increase in expenditures to the IEDC from this provision will be totally offset by the required reimbursement from the ARERF. The ARERF is made up of penalties deposited by electricity suppliers that do not meet the renewable energy resource requirements set forth in the bill.

Background on IURC Funding: The operating budget of the IURC is funded by regulated utilities operating in Indiana. The IURC determines the rate at which to bill the utilities based on the agency's budget, less reversions, divided by the total amount of gross intra-state operating revenue received by the regulated utilities for the previous fiscal year. Based on this formula, utilities are currently billed approximately 0.15% of their gross intra-state operating revenues to fund the IURC.

Explanation of State Revenues: *Renewable Energy Development:* The bill requires electricity suppliers that do not meet the advanced and renewable energy resource requirements in the bill to pay a penalty equal to the number of megawatt hours of advanced or renewable energy that the electricity supplier was required but failed to supply multiplied by \$20. The penalties are required to be deposited in the ARERF. The amount of penalties that may be collected is indeterminable. The amount of the penalty collections will depend on the number of electricity suppliers: (1) that fail to meet the bill's requirements; and (2) that were not exempted from the requirements by proving the energy resources required were not available or that the use of these resources would cause an unreasonable rate increase to the retail customers of the electricity supplier. The IURC would be required conduct public hearings on the application of these exemptions from the advanced and renewable energy requirements in the bill.

Utility Rate Increases: To the extent that any of the provisions of this bill increase utility rates, there could be an increase Utility Receipts Tax (URT), Utility Services Use Tax (USUT), and Sales Tax collections. The amount of any increase is indeterminable and will ultimately depend upon rate adjustments allowed by the IURC for cost recovery for new clean coal technology projects or airborne emissions projects.

Background: The rate for both the URT and USUT is 1.4%. The URT is calculated on the gross receipts of

all entities providing the retail sale of utility services in Indiana. The USUT is imposed on the retail consumption of utility services in Indiana. Both the URT and USUT are deposited in the state General Fund. Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.067%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%).

Explanation of Local Expenditures: See *State and Local Government Utility Rates* section above.

Explanation of Local Revenues:

State Agencies Affected: IURC, All.

Local Agencies Affected: All.

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